

**WATER/SNR/PTL/LEP: jlj****PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4608****July 20, 2006****R E S O L U T I O N**

**(RES. W-4608), ERSKINE CREEK WATER COMPANY (ERSKINE)  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$164,924  
OR 41.4% IN TEST YEAR 2006.**

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**SUMMARY**

By Draft Advice Letter, filed on January 10, 2006, Erskine seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on January 31, 2006.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$164,924 or 41.4% which is estimated to provide a return of margin of 23%.

**BACKGROUND**

Erskine, a Class C water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$159,000 or 40% for test year 2006. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Erskine's request shows 2006 gross revenues of \$398,084 at present rates increasing to \$557,184 at proposed rates. Erskine is requesting a return-on-rate base of 16.3%.

The last general rate case for Erskine was granted on August 5, 1999 per Resolution (Res.) W-4164 which authorized an increase of \$33,854 or 11.62% for test year 1999. Erskine was authorized a Consumer Price Index (CPI) increase of \$10,934 or 3.3% effective June 7, 2005. Erskine's present rates became effective with its interim general rate increase of \$24,289 or 6.44% granted on March 15, 2006, pursuant to Res. W-4588.

Erskine currently serves 1,180 customers. Erskine is a corporation providing water service to the unincorporated community of Lake Isabella and vicinity, located approximately 45 miles east of Bakersfield, in Kern County. Nick Silicz is vice-

president and manager of the utility. Erskine also has an office manager and two field employees; one of the field employees is a Grade II system operator. Erskine has a metered rate schedule and a private fire protection service schedule. The number of customers is not expected to substantially increase. Water is provided by three treated wells. The wells are located off Lake Isabella Boulevard and Edith Avenue near Erskine's office. Well No. 1 has a maximum pumping capacity of 1,500 gallons per minute. Well No. 2, the oldest well, has a pumping capacity of 500 gallons per minute and is only used as a stand by. Well No. 3 has a pumping capacity of 1,150 gallons per minute. Erskine has two storage tanks. The first tank has a 114,000-storage capacity and the second one has a 50,000 gallons storage capacity. One of the wells has a 20,000 gallons pressure tank.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was published on the Kern Valley Sun on February 5, 2006. The Division did not receive any letters protesting the increase.

### **DISCUSSION**

The Division made an independent analysis of Erskine's operations and issued its report on June 14, 2006. Appendix A shows Erskine's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Erskine is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses, including purchased power, employee labor, materials, water testing, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The major differences in Erskine's rate base were in plant, accumulated depreciation, and working cash. The company revised the utility's plant and accumulated depreciation upon request from the Division that its plant and accumulated depreciation did not agree to the adopted plant and accumulated depreciation in the last general rate case filing. The Division reviewed Erskine's revised plant and accumulated depreciation and found it reasonable. The Division also included in its estimate \$55,500 for well improvements and \$12,000 for a meter replacement program. Erskine is proposing to do a mainline replacement program at an estimated cost of \$85,000 and has requested that it be allowed to recover the costs through a rate base

offset. The Division recommends that Erskine be allowed to file for a rate base offset upon completion of the mainline replacement program.

Erskine has requested a rate of return of 16.3%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12% to 13% for a Class C, 100% equity financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per Decision (D.) 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's revenue requirements is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 23% for Class C water utilities. A comparison of the two methods indicates that the rate of margin method produces a higher revenue requirement; therefore, the Division recommends the rate of margin method.

Erskine's rate structure consists of two schedules: 1, Metered Service; and 4, Private Fire Protection Service. D.92-02-093 dated March 31, 1992, recommends that class C water companies can recover up to 65% of fixed costs through the service charge. The proposed rate design recovers approximately 65% of the fixed operating costs in the readiness to serve charge. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$164,924 or 41.4% for test year 2006.

At the Division's recommended rates shown in Appendix B, the bill for a bi-monthly bill for a 5/8x3/4-inch metered residential customer using the system average of 3,800 cu. ft. would increase from \$43.06 to \$60.90, a 41.4% increase. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **COMPLIANCE**

The utility has been filing annual reports as required. However, Erskine needs to update the following: Title Page and Rules 1, Definitions; 3, Application for Service; 4, Contracts; 5 (page 1), Special Information Required on Forms; 6, Establishment and Re-establishment of Credit; 10, Disputed Bills; 12, Information Available to Public; 13,

Temporary Service; 14, Continuity of Service; 17, Standards of Measurement for Service; and 18, Meter Tests and Adjustment of Bills for Meter Error.

**COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

**FINDINGS**

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. Erskine should be required to update the following: Title Page and Rules 1, Definitions; 3, Application for Service; 4, Contracts; 5 (page 1), Special Information Required on Forms; 6, Establishment and Re-establishment of Credit; 10, Disputed Bills; 12, Information Available to Public; 13, Temporary Service; 14, Continuity of Service; 17, Standards of Measurement for Service; and 18, Meter Tests and Adjustment of Bills for Meter Error.
5. Erskine should be authorized to file an Advice Letter to recover the costs of the mainline replacement upon its completion.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Erskine Water Company, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, Metered Service, and Schedule No. 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Erskine Water Company is authorized to increase its annual revenues by \$164,924 or 41.4% for test year 2006.
3. Erskine Water Company shall update the following rules in its tariff book: Title Page and Rules 1, Definitions; 3, Application for Service; 4, Contracts; 5 (page 1), Special Information Required on Forms; 6, Establishment and Re-establishment of

Credit; 10, Disputed Bills; 12, Information Available to Public; 13, Temporary Service; 14, Continuity of Service; 17, Standards of Measurement for Service; and 18, Meter Tests and Adjustment of Bills for Meter Error.

4. Erskine shall file an Advice Letter to recover the costs of the mainline replacement upon its completion.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 20, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

**APPENDIX A**  
**ERSKINE WATER COMPANY**  
**SUMMARY OF EARNINGS**  
Test Year 2006

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<b><u>Operating Revenues</u></b>					
Water Sales	\$398,084	\$557,184	\$398,084	\$558,894	\$563,008
<b><u>Operating Expenses:</u></b>					
Purchased power	58,543	58,543	49,613	49,613	49,613
Other vol. related	5,636	5,636	5,636	5,636	5,636
Employee labor	83,200	83,200	83,200	83,200	83,200
Materials	18,272	18,272	18,272	18,272	18,272
Contract work	17,413	17,413	17,413	17,413	17,413
Transportation	34,368	34,368	31,797	31,797	31,797
Other plant maintenance	435	435	435	435	435
Office salaries	48,854	48,854	48,854	48,854	48,854
Management	51,453	51,453	48,000	48,000	48,000
Employee pension & benefit	32,769	32,769	26,892	26,892	26,892
Uncollectible expense	3,343	3,343	3,343	3,343	3,343
Office services & rentals	6,803	6,803	6,803	6,803	6,803
Office supplies & expenses	24,474	24,474	23,174	23,174	23,174
Professional services	6,736	6,736	3,600	3,600	3,600
Insurance	25,052	25,052	24,463	24,463	24,463
Regulatory expense	3,713	3,713	2,700	2,700	2,700
General expenses	7,889	7,889	4,525	4,525	4,525
Total operating expenses	428,958	428,958	398,720	398,720	398,720
Depreciation expense	13,108	13,108	13,108	13,108	13,108
Payroll tax	15,704	15,704	15,704	15,704	15,704
Property taxes	13,764	13,764	6,000	6,000	6,000
State taxes	800	800	800	11,082	11,446
Federal income taxes	-	17,367	-	27,819	29,282
Total deductions	472,334	489,701	434,332	472,433	474,260
<b>Net Revenue</b>	<b>(74,250)</b>	<b>67,483</b>	<b>(36,248)</b>	<b>86,461</b>	<b>88,749</b>
Rate Base					
Average Plant	713,196	763,196	711,051	711,051	711,051
Aver. Acc. Dep.	391,074	401,973	339,685	339,685	339,685
Net Plant	322,172	361,223	371,367	371,367	371,367
Plus: Working Cash	60,963	71,493	66,453	66,453	66,453
Materials & supplies	1,550	1,550	1,550	1,550	1,550
Less: Contributions	21,155	20,123	20,123	20,123	20,123
Rate Base	363,530	414,143	419,247	419,247	419,247
Rate of Return	(20.4%)	16.3%	(10.1%)	19.7%	21.2%
Rate of Margin					23%

(END OF APPENDIX A)  
APPENDIX B  
Page 1  
ERSKINE WATER COMPANY

Schedule No. 1

METERED Service  
Test Year 2006

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Lake Isabella and vicinity, Kern County.

RATES

Quantity Rate:

All water Used, per 100 cu.ft	\$ 0.80	(I)
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Service Charge:	Per Meter Every Two Months
For 5/8x3/4-inch meter	\$ 30.50 (I)
For 3/4-inch meter	45.75
For 1-inch meter	76.25
For 1-1/2-inch meter	52.50
For 2-inch meter	244.00
For 3-inch meter	457.50
For 4-inch meter	762.50
For 6-inch meter	1,525.00 (I)

The service charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added to the every two-month charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B  
Page 2  
ERSKINE WATER COMPANY

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

Test Year 2006

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

The unincorporated community of Lake Isabella and vicinity, Kern County.

RATE

Every Two Months

For each inch of diameter of service connection	\$8.61	(I)
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SPECIAL CONDITIONS:

1. The fire protection service and connection shall be installed by the utility at the utility's directions. Cost for the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter, and backflow device) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly appointed agents shall have the right to ingress to, and egress from the premises for all purposes relating to said facilities.
4. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall not be more than the diameter of the main to which the service is connected.
5. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a main extension from the nearest existing main of adequate capacity shall be required by the utility.
6. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction. All facilities are to be installed according to the utility's specifications and maintained to the utility's satisfaction. The utility may require the installation of a backflow prevention device and a standard detector type meter approved by the Insurance Services Office for protection against theft, leakage, or waste of water.
7. No structure shall be built over the fire protection service and the customers shall maintain and safeguard the area occupied by the service from traffic and other hazardous conditions. The customer will be responsible for any damage to the fire protection service facilities.
8. Subject to the approval of the utility, any change in the location or construction of the fire protection service as may be required by public authority or the customers will be made by the utility following payment to the utility of the entire cost of such change.
9. Any unauthorized use of water through the fire protection service will be charged for at the applicable tariff rates and may be grounds for the utility's discontinuing fire protection service without liability.

**(END OF APPENDIX B)**  
**APPENDIX C**  
**ERSKINE WATER COMPANY**

Schedule No. 1  
**METERED SERVICE**  
Test Year 2006

COMPARISON OF RATES:

METERED SERVICE	Per Meter <u>Every Two Months</u>		
	Present Rates	Proposed Rates	Percent Increase
Service Charge:			
For 5/8x3/4-inch meter	\$ 21.40	\$ 30.50	42.5%
For 3/4-inch meter	32.11	45.75	42.5%
For 1-inch meter	53.52	76.25	42.5%
For 1-1/2-inch meter	107.04	152.50	42.5%
For 2-inch meter	171.29	244.00	42.5%
For 3-inch meter	321.17	457.50	42.4%
For 4-inch meter	535.30	762.50	42.4%
For 6-inch meter	1,070.62	1,525.00	42.4%

Quantity Rate:

All water, per 100 cu.ft	\$ 0.57	\$ 0.80	40.4%
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Comparison of a bi-monthly typical bill for residential metered customers with a 5/8 x 3/4 inch is shown below at current rates and recommended rates for test year 2006.

Usage	Present	Amount Recommended	Percent Increase	Increase
0	\$ 21.40	\$ 30.50	\$ 9.10	42.5%
10	27.10	38.50	11.40	42.0%
20	32.80	46.50	13.70	41.8%
30	38.50	54.50	16.00	41.6%
38 Avg.	43.06	60.90	17.84	41.4%
50	49.90	70.50	20.60	41.3%
60	55.60	78.50	22.90	41.2%

**(END OF APPENDIX C)**

**APPENDIX D**  
**ERSKINE WATER COMPANY**  
**ADOPTED QUANTITIES**  
**Test Year 2006**

1. Purchased Power	\$ 49,613
2. kWh	474,462
3. Uncollectibles	\$ 3,343
4. Property Tax	\$ 6,000

Service Connections

Metered Rate	
5/8x 3/4-inch	1,092
3/4-inch	13
1-inch	24
1-1/2-inch	31
2-inch	16
3-inch	0
4-inch	2
6-inch	<u>2</u>
Total Metered	1,180
Metered Water Sales	334,536 Ccf

**INCOME TAX CALCULATIONS**  
Test Year 2006

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$563,008	\$563,008
2.	Operating Expenses	\$398,720	\$398,720
3.	Depreciation	\$ 13,108	\$ 13,108
4.	Payroll Tax	\$ 15,704	\$ 15,704
5.	Property Tax	\$ 6,000	\$ 6,000
6.	State Taxable Income	\$129,476	\$129,476
7.	State Tax (@8.84%)	\$ 11,446	\$ 11,446
		=====	=====
5.	Federal Taxable Income	\$118,030	
6.	Federal Income Tax	\$ 29,282	
7.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 40,728

(END OF APPENDIX D)